

INFORMATION BULLETIN #22

INCOME TAX

JULY 2006

(Replaces Bulletin #22 dated January 2003)

DISCLAIMER: Information Bulletins are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules, and court decisions. Any information that is inconsistent with the law, regulations, or court decisions is not binding on the Department or the taxpayer. Therefore, information provided in this Bulletin should only serve as a foundation for further investigation and study of the current law and procedures related to its subject matter.

SUBJECT: Neighborhood Assistance Tax Credit

REFERENCE: IC 6-3.1-9

INTRODUCTION

An income tax credit is available to Indiana taxpayers who contributed to individuals, groups or neighborhood organizations, or who engage in activities to upgrade economically disadvantaged areas for economically disadvantaged households. This credit is limited to the lesser of fifty percent (50%) of the amount contributed or invested, state income tax due, or twenty-five thousand dollars

(\$25,000) in any taxable year. The credit can be applied against the taxpayer's adjusted gross income tax liability or the financial institutions tax.

I. Qualification for Claiming the Neighborhood Assistance Credit

The credit may be claimed by any taxpayer (including any S Corporation, partnership or individual) who makes a contribution to or an investment in some type of activity which will result in the upgrading of an area designated as economically disadvantaged by the Indiana Housing and Community Development Authority after consultation with the community services agency. Examples of qualifying activities are:

1. Furnishing financial assistance, labor, material, and technical advice to aid the physical or economic improvement of an economically disadvantaged area.
2. Any type of instruction to an individual who resides in an economically disadvantaged area or an economically disadvantaged household that enables the individual to acquire the necessary vocational skills to become either employable, or to be able to seek a higher grade of employment.
3. Any activity which aids in the reduction of crime in an economically disadvantaged area.
4. Contributions to any neighborhood organization which performs community services in an economically disadvantaged area or for an economically disadvantaged household, provided that such organization qualifies and obtains a ruling as exempt from taxation under provisions of the Internal Revenue Code and from the Indiana Department of Revenue as a religious, charitable, scientific, literary, educational or civic organization.
5. Any type of scholastic instruction or scholarship assistance to an individual residing in an economically disadvantaged area which enables the individual to prepare for better life opportunities.

NOTE: None of the above activities can benefit an individual employed by the donor or an individual administering such activities. On-going volunteer activities and out of pocket expenses necessary for day to day operation of the program do not qualify for the credit.

II. Credit Limitations and Application

The credit is limited to the lesser of fifty percent (50%) of the amount contributed or invested, the state income tax due, or twenty-five thousand dollars (\$25,000) and should be claimed for the tax year in which the contribution is made. There is no provision for carry back, carry forward or refund of the credit. For purposes of the limitation, state income tax due is first reduced by any credit for taxes paid to other states, and the college contribution credit, before the application of the neighborhood assistance credit.

The total amount of neighborhood assistance credit allowed to all taxpayers in any state fiscal year is limited to \$2,500,000. Applications for the credit will be considered in the chronological order received until the \$2,500,000 limit is reached.

III. Procedure

Any organization or individual providing neighborhood assistance must first apply to the Indiana Housing and Community Development Authority requesting approval of a proposed program. Such application should set forth the program to be conducted, the economically disadvantaged area selected, the estimated amount to be invested and the plans for implementing the program.

Donors with approved programs should complete Form NC-10, Neighborhood Assistance Credit Application, and Form NC-20, Notice of Department Decision on Neighborhood Assistance Credit Application, and submit both forms along with the Contributor Application and Certification to the Indiana Housing and Community Development Authority. Indiana Housing and Community Development Authority will review the application and forward it to the Department of Revenue with a recommendation for approval or rejection of the credit.

The Department of Revenue will return Form NC-20 to the donor indicating the amount of credit approved or the reason the credit was disapproved. The Department of Revenue will accept a properly completed Contributor Application and Certification as proof of cash donations. Contributions of property and or services require additional documentation as shown below.

IV. Contributions Other Than Cash

In order to qualify for the credit, contributions other than cash must be contemplated by the program proposal submitted by an organization for approval. Donors to approved programs should check with the organization administering the program to determine if contributions other than cash are within the scope of the approved program.

Contributions other than cash should be valued and documented according to the following guidelines:

Property

Donations of property should be valued at the lower of cost or market value. The value for new property will be determined on the basis of fair and reasonable market price as available to consumers on the open market but not in excess of the substantiated cost to the donor. The value of used property will be determined on the basis of book value (using generally accepted accounting principles) as certified by the donor. Book value is the purchase cost less reasonable depreciation using the straight line method, with one-half year of depreciation used in the year purchased and one-half used in the year of contribution. Unless it can be otherwise clearly established, a five-year useful life should be used in calculating depreciation.

“New Property” is property which has not been used by the end user and which is packaged as it would normally be received by the end user upon purchase. Unless it can be otherwise clearly established, “new property” held more than twelve (12) months prior to contribution will be treated as used property.

A copy of the original invoice showing cost and date of purchase must be submitted with each application. In the case of manufactured property, a statement supporting the cost of the manufactured property must accompany any claim.

Services

Contributions of services should be valued at the donor's usual charge for such services, but not to exceed the average fee charged for the same type of services in the locality in which the services are rendered.

An itemized listing of the services rendered with the proposed charge for each service should be submitted with each application.

A handwritten signature in black ink that reads "John Eckart". The signature is fluid and cursive, with a large loop at the end of the last name.

John Eckart
Commissioner